

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 CARACAS 6441

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E.O. 11652: GDS

TAGS: ENRG, PFOR, VE

SUBJECT: MEETING WITH THE PRESIDENT - PETROLEUM NATIONALIZATION

1. SUMMARY: PRESIDENT PEREZ EXPRESSED THE HOPE THAT THE USG WOULD, AS NATIONALIZATION OF THE PETROLEUM INDUSTRY GOES FORWARD, DISTINGUISH BETWEEN ITS OWN INTERESTS AND THOSE OF THE COMPANIES, WHILE SEPARATING THE PROBLEM OF THE ORGANIZATION OF THE PETROLEUM INDUSTRY HERE FROM OUR DIFFERENCES OVER OIL PRICING AND OPEC. HE SAID THAT THE COMPANIES ARE OBSTRUCTING THE PROCESS OF NATIONALIZATION BY PRESSURE TACTICS AND UNREASONABLE NEGOTIATING POSITIONS. HIS PARTICULAR FEAR IS THAT THEY WILL END UP TAKING THEIR CLAIMS TO THE VENEZUELAN COURTS, A MOVE HE BELIEVES WOULD BE SERIOUSLY DISRUPTIVE. THE PRESIDENT HAS CONCLUDED THAT HE MUST NOW TAKE A HAND HIMSELF IN THE NEGOTIATIONS AND PLANS TO TALK PERSONALLY TO THE COMPANIES.

2. I TOLD THE PRESIDENT IT IS OUR POSITION NOT TO INJECT THE USG INTO THESE NEGOTIATIONS AND THAT WE ARE NOT ACTING AS ANYONE'S SILENT PARTNER. I DID REMIND HIM OF OUR CONCERN WITH RESPECT TO COMPENSATION AND SAID QUITE FRANKLY THAT I COULD FORESEE DIFFERENCES ARISING BETWEEN US ON THAT FRONT. THE PRESIDENT REACTED FAVORABLY TO MY SUGGESTION THAT HE INCLUDE THE SMALLER CONCESSIONAIRES IN HIS TALKS WITH THE COMPANIES.

3. THROUGHOUT THE CONVERSATION PEREZ REFLECTED THE PREVAILING
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NERVOUSNESS HERE OVER NATIONALIZATION AND ITS CONSEQUENCES.

HE HAS SO FAR MISHANDLED THE PROJECT POLITICALLY, ALLOWING THE OPPOSITION PARTIES TO SIEZE THE INITIATIVE AND CREATE A NATIONAL DEBATE OVER FUTURE FOREIGN PARTICIPATION IN THE OIL INDUSTRY. BUT MUCH MORE SERIOUS FOR THE PRESIDENT AND HIS GOVERNMENT IS THE PROSPECT OF TRYING TO OPERATE A NATIONALIZED INDUSTRY UNDER POOR COMPETITIVE CONDITIONS AND WITHOUT THE COOPERATION OF THE BIG COMPANIES. A LESS FEARFUL AND MORE BUSINESSLIKE ATMOSPHERE WOULD BE TO OUR ADVANTAGE AS NATIONALIZATION GOES FORWARD SINCE EXCESSIVE EMOTION IS LIKELY TO PRODUCE DEFIANT GESTURES HARMFUL TO OUR INTERESTS AND THOSE OF THE COMPANIES. END SUMMARY.

4. I SPENT ABOUT 90 MINUTES ALONE WITH PRESIDENT CARLOS ANDRES PEREZ OVER BREAKFAST AT HIS RESIDENCE (LA CASONA) ON JUNE 21. WE TOUCHED ON A NUMBER OF MATTERS, BUT PETROLEUM NATIONALIZATION WAS VERY MUCH ON THE PRESIDENT'S MIND AND HE KEPT COMING BACK TO THAT TOPIC.

5. PEREZ SAID HE HOPED THE USG WOULD DISTINGUISH BETWEEN THE US NATIONAL INTEREST AND THE COMPANIES' INTERESTS, AND NOT SIMPLY AUTOMATICALLY SUPPORT THE LATTER AS A POWERFUL IF SILENT PARTNER. CLEARLY, IN HIS VIEW, THE TWO GOVERNMENTS MUST ADDRESS THE LARGER ISSUE OF MAINTAINING THE RELATIONSHIP BETWEEN A DEPENDABLE SUPPLIER (VENEZUELA) AND ITS PRINCIPAL MARKET (THE U.S.). WE SHOULD FIND SOME WAY TO TREAT THIS ISSUE ON A HIGHER PLANE, FREE OF INTERFERENCE FROM THE NARROWER CONCERNS OF THE MULTINATIONALS.

ABOVE ALL, THE PRESIDENT SAID, WE SHOULD KEEP DISTINCT AND SEPARATE THE PROBLEM OF THE ORGANIZATION OF THE PETROLEUM INDUSTRY IN VENEZUELA" ON THE ONE HAND AND OUR DIFFERING VIEWS WITH RESPECT TO OIL PRICING AND OPEC ON THE OTHER.

6. REFERRING TO THE SUCCESSFUL NATIONALIZATION OF THE IRON-MINING INDUSTRY, PEREZ ARGUED THAT A SIMILARLY SMOOTH AND EQUITABLE TRANSITION TO STATE OWNERSHIP OF THE PETROLEUM INDUSTRY WOULD BE VERY MUCH TO THE LONG-TERM ADVANTAGE OF THE US, ESTABLISHING A USEFUL PRECEDENT AND DEMONSTRATING THAT "VIOLENT" EXPROPRIATIONS ARE NOT NECESSARY. HOWEVER, HE ASSERTED, THE COMPANIES ARE "OBSTRUCTING" THE PROCESS. CREOLE IN PARTICULAR HAS TAKEN A HARD LINE. ITS PROPOSAL CONTEMPLATES GUARANTEED LIFTINGS OF ONLY

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600,000 B/D AS OPPOSED TO THE COMPANY'S "NORMAL" VOLUME OF 1.4 MILLION B/D. PEREZ THOUGHT THAT OFFER WAS CLEARLY A FORM OF PRESSURE DESIGNED TO FRIGHTEN THE GOV.

7. IN ADDITION, THE PRESIDENT ASSERTED, THE COMPANIES HAVE INTIMATED THAT THEY MIGHT CLAIM COMPENSATION FOR RESERVES IN THE GROUND--A TOTALLY "UNACCEPTABLE" CONCEPT AS FAR AS THE GOV IS CONCERNED. FINALLY, THE COMPANIES SEEM TO HAVE IN MIND

"RENTING" TO THE GOV BY MEANS OF CONTRACTS, THE FOREIGN TECHNICIANS NOW WORKING FOR THEM. THE VENEZUELAN SIDE CAN SEE NO REASON WHY THESE TECHNICIANS SHOULD NOT SIMPLY CONTINUE AS THEY ARE UNDER THE SAME CONDITIONS OF EMPLOYMENT, AND WITHOUT ANY MIDDLE-MAN ROLE FOR THE COMPANIES.

8. PEREZ SAID HE KNOWS FULL WELL THAT CREOLE'S TOUGH APPROACH REFLECTS AN INITIAL NEGOTIATING POSITION WHICH, AS CUSTOMARY IN SUCH BARGAINING, MAY BE MODIFIED IN TIME. BUT HIS FEAR IS THAT THE GAP BETWEEN THE TWO SIDES WILL PROVE TOO WIDE, THE NEGOTIATIONS WILL FOUNDER AND THE COMPANIES WILL TAKE THEIR CASES TO THE VENEZUELAN COURTS. IF THAT WERE TO HAPPEN, IN HIS OPINION, THE NATIONALIZATION PROCESS WOULD BE SERIOUSLY DISRUPTED TO THE DISADVANTAGE OF BOTH VENEZUELA AND THE US. THE PRESIDENT CONCLUDED THAT IT IS NOW TIME FOR HIM TO TAKE A PERSONAL HAND IN THE NEGOTIATIONS. HE SAID HE PLANS TO CALL THE COMPANIES IN AT AN EARLY DATE.

9. AS FOR THE REVERSION LEGISLATION NOW IN THE CONGRESS, PEREZ COMPLAINED BITTERLY THAT COPEI IS PLAYING THE GAME OF THE EXTREME LEFT. IT IS RIDICULOUS, HE SAID, TO ARGUE THAT VENEZUELA CAN RUN ITS OIL INDUSTRY WITHOUT OUTSIDE HELP. IN HIS VIEW, MIXED COMPANIES WILL PARTICULARLY BE NEEDED FOR THE EXPLOITATION OF THE ORINOCO TAR BELT, WHICH, UNLIKE SOME OF HIS COUNTRYMEN, HE DOES NOT REGARD AS A "SEALED BOX" TO BE LEFT UNOPENED INDEFINITELY

.
THE PRESIDENT THOUGHT IT WOULD BE IMPOSSIBLE FOR VENEZUELA TO DEVELOP THIS RESOURCE ON ITS OWN "NOW, IN 10 YEARS, OR EVEN IN 20." (HE OBVIOUSLY DOES NOT SHARE THE OPTIMISTIC VIEW OF INDIGENOUS TECHNOLOGICAL PROGRESS OFFERED BY GUMERSINDO RODRIGUEZ--STATE 144760.) MIXED COMPANIES WOULD FORCE THE PURVEYORS OF FOREIGN TECHNOLOGY TO SHARE THE RISKS INVOLVED, THUS INSURING THEIR INTEREST IN EFFICIENT OPERATIONS. THIS PRINCIPLE HAD BEEN APPLIED AGAINST
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C O N F I D E N T I A L SECTION 2 OF 2 CARACAS 6441

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THE COMPANY'S WISHES IN THE CASE OF THE TAKEOVER OF U.S. STEEL'S
BRIQUETTING PLANT.

10. IN RESPONSE TO ALL OF THIS, I FIRST NOTED OUR POSITION
AGAINST BECOMING INVOLVED IN NEGOTIATIONS OF THE KIND THE GOV
IS CONDUCTING WITH THE OIL COMPANIES, A POSITION THAT REFLECTS
OUR BASIC SYSTEM IN THE UNITED STATES. I COULD ASSURE HIM THAT
WE ARE NOT INVOLVED, AS MANIFESTED BY THE FACT THAT I HAD HAD
NO PREVIOUS KNOWLEDGE OF CREOLE'S 600,000 B/D OFFER. THIS DID NOT
MEAN, OF COURSE, THAT I WAS NOT PREPARED TO DISCUSS THE ISSUES
WITH HIM AS HE MIGHT DESIRE.

11. I POINTED OUT THAT THE BASIC USG CONCERN IS WITH COMPENSATION
AND TOLD THE PRESIDENT QUITE FRANKLY THAT I COULD FORESEE PROBLEMS
ARISING BETWEEN US IN THAT RESPECT. FOR EXAMPLE, THE SITUATION
OF THE SMALLER CONCESSIONAIRES IS POTENTIALLY TROUBLESOME, IN
PART BECAUSE THEY HAVE BEEN IGNORED SO FAR BY THE GOV AND SEE
LITTLE FUTURE FOR THEMSELVES HERE. ON THAT POINT THE PRESIDENT
SAID IT IS HIS CURRENT INTENTION TO LEAVE ALL THE OPERATING COMPANIES
JUST AS THEY ARE FOR THE TIME BEING; I.E., PRESUMABLY ALL THE
CONCESSIONAIRES COULD CONTINUE TO PARTICIPATE IN VENEZUELA'S
INDUSTRY IN CONFORMITY WITH WHATEVER GENERAL FORMULA IS DEVELOPED
AND UNDER THE UMBRELLA OF THE "HOLDING COMPANY" TO BE HEADED BY
GENERAL ALFONSO RIVARD. (THIS WOULD BE CONTRARY TO NUMEROUS
PREVIOUS INDICATIONS THAT THE GOV PLANS TO "CONSOLIDATEOZ THE
SMALLER OPERATIONS.) THE PRESIDENT ALSO SAID HE WOULD INCLUDE THE
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SMALLER CONCESSIONAIRES IN HIS OWN FORTHCOMING TALKS WITH THE
COMPANIES (PARA 5).

12. AS FOR THE LOCAL CONTROVERSY OVER THE REVERSION LEGISLATION
AND ARTICLE 5, I SAID I SIMPLY DO NOT UNDERSTAND IT SINCE THE
DIFFERENCE BETWEEN MIXED COMPANIES AND "ASSOCIATION CONTRACTS"
WOULD NOT SEEM TO AMOUNT TO MUCH IN PRACTICAL TERMS.

13. ON LEAVING, I AGAIN ASSURED THE PRESIDENT THAT I WOULD BE

AVAILABLE AT ANY TIME TO DISCUSS ANY OF THESE ISSUES IN THE SPIRIT OF ACCOMMODATION WE BOTH WANT TO STRENGTHEN.

14. COMMENT: THE PRESIDENT, ALONG WITH JUST ABOUT EVERYBODY ELSE I HAVE SEEN HERE, IS EXCEEDINGLY NERVOUS ABOUT NATIONALIZATION. POLITICALLY HE HAS MISHANDLED THE ENTIRE PROJECT BY APPEALING TO COPEI AND ITS LEFTTEST PARTNERS FOR A "CONSENSUS" BEFORE THE FACT. THAT MIS-STEP CREATED AN ESSENTIALLY STERILE NATIONAL DEBATE OVER "MIXED COMPANIES" AND PAINTED THE GOV INTO A CORNER WHERE EVERY MOVE TOWARD REASONABLE ARRANGEMENTS WITH THE CONCESSIONAIRES WILL BRING CRIES OF "SELL-OUT." (PEREZ TOLD ME HE IS NOW TRYING TO TURN THIS CORNER BY INSPIRING REALISTIC STATEMENTS ON THE PROBLEM OF OPERATING A NATIONALIZED PETROLEUM INDUSTRY FROM BUSINESSMEN, ACADEMICS AND PROFESSIONALS--ELEMENTS HITHERTO LARGELY SILENT.)

15. BUT WHAT MOST WORRIES THE PRESIDENT, AND SERIOUS VENEZUELAN OF ALL KINDS, IS THE PROSPECT OF TRYING TO OPERATE THIS COMPLEX INDUSTRY IN AN UNFAVORABLE INTERNATIONAL COMPETITIVE CLIMATE AND WITHOUT THE SUPPORT OF THE BIG COMPANIES. HERE THE PRESIDENT IS CAUGHT BETWEEN THE POLITICAL REQUIREMENTS IMPOSED BY THE FORCES OF NATIONALISM AND THE UNDERLYING NATIONAL INTEREST IN AN EFFICIENT AND PROFITABLE OIL INDUSTRY. WE WILL WANT TO KEEP THIS PRICKLY SITUATION IN MIND OVER THE MONTHS AHEAD. IT SEEMS PARTICULARLY IMPORTANT TO ME THAT WE RESIST ANY TEMPTATION TO EXACERBATE THE PREVAILING NERVOUSNESS. NATIONALIZATION IS GOING TO COME IN ANY CASE. IF IT COMES IN AN ATMOSPHERE OF FEAR AND EMOTIONAL DEFIANCE WE ARE LIKELY TO FIND THE CONSEQUENCES UNPLEASANT. SHLAUDEMAN

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